

Business Essentials for State Taxpayers (B.E.S.T.)

*Operating a Business in Alabama:
Sales, Use, Lodgings, & Rental Taxes*

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1



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2

The information in this presentation is intended to be an overview. It is not a comprehensive explanation of all aspects of the subject matter, does not represent legal advice, and is not legally binding on the Department. Information regarding taxes and tax administration changes frequently and should always be confirmed through a tax professional.

Please refer to the Alabama Department of Revenue website at revenue.alabama.gov for additional information.

Purpose of this Webinar

To inform Alabama taxpayers of the requirements and guidelines for charging, collecting, and remitting the following taxes:

- Sales Tax (SLS)
- Sellers Use Tax (SLU)
- Simplified Sellers Use Tax (SSU)
- Consumers Use Tax (CNU)
- Lodgings Tax (LOG)
- Rental/Leasing Tax (RNT)

Taxes Administered by the Sales & Use Tax Division

- Sales Tax
- Use Tax (Sellers Use & Consumers Use)
- Lodgings Tax
- Rental/Leasing Tax
- Miscellaneous Taxes
 - Utility
 - Prepaid Wireless Charge
 - Mobile Service
 - Contractors Gross Receipts
 - Dry-Cleaning Fee

Who Must Register for a Tax Account Number?

- **All Retail Businesses** – Businesses, which sell tangible personal property to the end user, must register for an Alabama Sales Tax Account Number.
- **Lodgings Businesses** – Businesses, which provide short term lodgings, must register for an Alabama Lodgings Tax Account Number.
- **Rental Businesses** – Businesses, which lease tangible personal property, must register for an Alabama Rental Tax Account Number.
- **All Other Businesses Not Listed** – Contact your local ADOR Taxpayer Service Center to determine what (if any) state taxes apply.

Registering for a New Tax Account Number

How to Apply for a New State Account Number with the Alabama Department of Revenue:

- Online My Alabama Taxes (MAT) registration –
<https://myalabamataxes.alabama.gov>

Registering for a New Tax Account Number

How to Apply for a New Account Number with the City and/or County:

- State-Administered Localities – registration is included with State registration
- Self-Administered or Privately-Administered Localities – will need to contact the locality directly

List of Non-State Administered localities can be found at:

<http://revenue.alabama.gov/sales-use/tax-rates> and clicking on “City and County Taxes Not Administered by the Alabama Department of Revenue” under Tax Rate Reports

What If No Retail Sales are Being Made?

- The following may require an Alabama Sales Tax Certificate of Exemption (Form ST:EX-A1):
 - **All Wholesalers** – Businesses which sell exclusively to retailers, manufacturers, or other wholesalers (may require certificate of exemption).
 - **Manufacturers** - Businesses making purchases of raw materials to be included in the final product.

Please contact the Taxpayer Service Center in your area if you have questions.

Sales Tax

What is Sales Tax?

- A privilege tax imposed on the retail sale of tangible personal property sold in Alabama by businesses located in Alabama.
- The tax is collected by the seller from their customers and remitted directly to the state, city, and/or county.
- All sales of tangible personal property are retail sales except those defined as wholesale sales.

State Tax Rates

• General Rate	4.00%
• Consumable Vapor Products	4.00%
• Reduced Rates:	
➤ Automotive	2.00%
➤ Farm	1.50%
➤ Machine	1.50%
➤ Vending	3.00%

Please check your local (city and county) tax rates on the ADOR website:
<http://revenue.alabama.gov/sales-use/tax-rates/>

General Terms and Definitions

- **Retail Sales** – Sale of tangible personal property to the consumer or end user. (Excludes certain labor, services, and real estate.)
- **Consumable Vapor Products** – Total gross sales of consumable vapor products that **contain nicotine** should be included under Vapor Products (electronic cigarettes) – 4%. Sales of vapor products that do not contain nicotine should be included under General Sales Tax – 4%.
- **Wholesale Sales/Sales for Resale** – Sale of tangible personal property to licensed merchants, dealers, or other wholesalers for “resale”. (The Seller must maintain a copy of the sales tax license or exemption certificate for these customers.)

General Terms and Definitions

- **Withdrawals** – Any items purchased tax-exempt and withdrawn for use instead of being sold are subject to sales tax at cost.
- **Over Collections** – Tax collected over and above actual rate. Any over collections must be paid to the State. Same holds true for local sales tax.
- **Exemptions/Exempt Sales** – Non-taxable transactions, vary to types of business, consumer, and items sold.

What are Sales Tax Exempt Sales?

Commonly-Seen Exemptions:

- **Sales of Exempt Items** – Items specifically exempted by law (Rx drugs, gasoline, motor oil).
- **Sales to Exempt Customers** – Customers specifically exempted by law or have a Certificate of Exemption, Direct pay permit, Government Agencies in Alabama, Federal Government.

Please note that statutorily exempt entities must now obtain an annual exemption certificate.

What are Sales Tax Exempt Sales?

- **Sales Paid for with Food Stamps** – Applies only to approved food items purchased with Food Stamps. All other items taxable.
- **Out of State Sales** – Generally shipped by common carrier, such as USPS, UPS, or any other carrier that ships for the public.
- **Wholesale Sales/Sales for Resale** – Sales to licensed dealers. Obtain copy of sales tax license or Certificate of Exemption.
- **Certain Labor** – Not all labor is exempt from tax.

What Labor is Taxable?

Types of Labor and Taxability of Each

- **Repair Labor** – Not taxable provided it is shown as a separate line item on the invoice.
- **Installation Labor** – Condition of sale to install an item. Not taxable provided the labor is broken out or shown as a separate item. If labor is included in the total sum, then the total amount is taxable.
- **Fabrication Labor** – On custom or made to order items, labor can not be deducted. It is part of the cost to manufacture the item.

Sellers, Simplified Sellers, & Consumers Use Tax

What is Sellers Use Tax?

A tax that is imposed on the retail sale of tangible personal property sold in Alabama by businesses located outside of Alabama which have no inventory located in Alabama, but are making retail sales in Alabama via sales offices, agents, or by any significant recurring contact or “nexus” with Alabama.

Nexus in Alabama is having a physical presence in the state. This can be in the form of making deliveries, having sales representatives or service and repair personnel, or some other physical presence.

What is Simplified Sellers Use Tax?

- §40-23-191, Code of Alabama 1975, entitled the “Simplified Sellers Use Tax Remittance Act” allows “eligible sellers” to participate in a program to collect, report, and remit a flat 8% Simplified Sellers Use Tax (SSUT), on sales made into Alabama.
- An “eligible seller” is one who sells tangible personal property or service into Alabama from an inventory or location outside the state and who has NO physical presence and is not otherwise required by law to collect tax on sales made into the state.
- The collection and remittance of the SSUT relieves the eligible seller and the purchaser from any additional state and local sales or use taxes on the transaction.

Where will I see Simplified Sellers Use Tax?

- Online purchases from remote eligible sellers.
- As a consumer, you should see the following statement on purchase invoices/receipts that are made by eligible sellers:

“Seller has collected the simplified sellers use tax on this transaction(s) and the tax will be remitted on the customer’s behalf to the Alabama Department of Revenue. Seller’s program account number is SSU-RXXXXXXXXX.”

- As a consumer you should not see SSUT charges on invoice/receipts from instate vendors or brick and mortar vendors. Sales tax would be due on these type of transactions.

Remember, if you make an online purchase and the vendor does not charge the applicable Alabama Sales Tax and/or SSUT, you, as the consumer, are required to make a remittance of the Consumer’s Use Tax on the purchase.

What is Consumers Use Tax?

- Due when merchandise is purchased at retail and brought into Alabama for storage, use, or consumption unless specifically exempted by law.
- Counterpart to sales tax.
- Enacted to prevent vendors located outside the state from having an unfair advantage against in-state vendors who charge sales tax.
- Use tax rates are the same as state sales tax rates.

Lodgings Tax

What is Lodgings Tax?

- A privilege tax on persons, firms, and corporations engaged in the renting or furnishing rooms, lodgings, or other accommodations to transients for periods of less than 180 days of continuous occupation.
- This includes, the short-term rental of rooms in one's personal home through online rental sites such as, Airbnb, VRBO, Craigslist, and any other online portal.
- State Rates: *(Note different rate for the North Alabama Mountain Lakes area.)*
 - Lodgings 4%
 - North Alabama* 5%

**North Alabama Mountain Lakes area includes Blount, Cherokee, Colbert, Cullman, DeKalb, Etowah, Franklin, Jackson, Lauderdale, Lawrence, Limestone, Madison, Marion, Marshall, Morgan, and Winston counties.*

Lodgings Tax Exemptions

- Lodgings for a period of 180 continuous days or more.
- Lodgings paid directly by the United States Government.
 - (<https://smartpay.gsa.gov/content/gsa-smartpay-travel-account>)
- Federal credit unions.
- Entities that are exempted from the payment of any and all state, county, and municipal taxes.
- Marine slips, places or spaces for tent camping, places or spaces provided for motor homes, travel trailers, self-propelled campers or house cars, truck campers, or similar recreational vehicles commonly known as RVs, that are supplied for a period of 90 continuous days or more in any place. (*Effective October 1, 2019.*)

Lodgings Tax Exemptions

- Effective January 1, 2009, charges for rooms, lodgings or accommodations made in connection with a state-certified production which meets the requirements of Section 41- 7A-45, Code of Alabama 1975, as amended, shall be exempt from the state lodgings tax.
- Certain foreign diplomats and consular officials are exempt from state, county, and municipal lodgings.
- Charges for certain rooms, lodgings, or accommodations supplied by camps, conference centers, or similar facilities are exempt from lodgings tax.

Rental/Leasing Tax

What is Rental Tax?

- Privilege tax levied on the lessor for the leasing or renting of tangible personal property. *(Note: It does not include real property.)*
- True Lease vs. Conditional Sales Lease

State Rates:

Automotive vehicles	1.5%
Linens	2.0%
Other	4.0%

Can Rental Tax be Charged to the Customer?

- Lessors can pass on licenses or privilege taxes by adding such taxes to the leasing price.
- All such amounts constitute gross proceeds subject to the privilege or license tax and shall be included in the monthly taxable gross proceeds subject to the rental tax.
- Rental tax is levied against the lessor and is not a consumer tax.
- A lessor may not pass on such amounts to the lessee on leases of tangible personal property to the State of Alabama, a municipality, or county of the State, unless the flat amount includes both the tax and the leasing fee.

Rental vs. Sales Tax Example

- Equipment rental of \$100.00 and parts sales of \$100.00. Both rental and sales tax rates total 8% (State 4%, County 1%, City 3%).
- Charge customer rent for equipment \$100 plus \$8.00 “rental tax” for total \$108.00.

Equipment owner reports and pays 8% rental tax on \$108.00 = \$8.64.

- Charge customer for parts purchased \$100.00 plus \$8.00 sales tax for total of 108.00.

Seller reports \$100 sales and remits \$8.00 sales tax collected from customer.

Rental Tax Exemptions

- Alabama lessor rents items located outside of Alabama.
- The leasing or rental of oxygen or durable medical equipment by a provider to a recipient of benefits under the Medicare or Medicaid program under orders from a duly licensed physician.
- Items used for the treatment of illness or injury or to replace all or part of a limb or internal body part rented or leased by or on behalf of an individual pursuant to a valid prescription and covered by and billed to Medicare, Medicaid, or a health benefit plan.
- Medical supplies that are covered by and billed to Medicare, Medicaid, or a health benefit plan.
- The gross receipts derived from leases or rentals of tangible personal property are not subject to rental tax when the 4 percent amusement tax applies to the same gross receipts.

Filing Requirements for Sales, Use, Lodgings and Rental Taxes

Filing Requirements

- Returns are filed monthly with the following exceptions:
 - Can request quarterly filing if total State tax for previous calendar year is less than \$2,400.
 - Can request biannual filing if total State tax for previous calendar year is less than \$1,200 or no transactions no more than two 30 consecutive day periods during the preceding calendar year.
 - Sales and Rental Tax can request annual filing if total State tax for previous calendar year is less than \$600.
- Report total sales, use, lodgings, or rental income on the appropriate accounts.
- Exempt or non-taxable transactions are reported as a deduction.
- Must file even if there are no transactions for the month. Also known as a zero return.

Due Dates for Filing Taxes

- Taxes are due the following month or tax period.
- Taxes are delinquent after 4:00 PM Central Time on the 20th of the following month.
- If the 20th of the month falls on a weekend or holiday, taxpayer must file on or before the next working day to be timely filed.
- Penalties are due if not timely filed or timely paid.

Discount for Timely Filing

Discounts for timely filing are applied on sales and lodgings taxes. There are no discounts on use or rental taxes. The calculations are automatically calculated when filing the returns on My Alabama Taxes (MAT).

- 5% on the first \$100.00 of tax
- 2% on the amount of tax over \$100.00
- Total monthly discount may not exceed \$400.00

Penalties

- **Failure to Timely File Penalty**
10% of tax due or \$50; whichever is greater
- **Failure to Timely Pay Penalty**
 - 1% of tax due per month; maximum 25% (e.g., income tax returns)
 - Flat rate of 10% of tax due for monthly and quarterly returns (e.g., sales, lodgings, or rental tax returns)
- **Negligence Penalty** (*intentional disregard for rules and/or regulations*)
5% of tax due
- **Fraud Penalty** (*to purposely deceive*)
50% of tax due

Interest Due

If the tax is not timely paid, interest is also due and by law cannot be waived.

The rate of interest changes because it is the same rate as established by the U.S. Secretary of the Treasury under the authority of 26 U.S. Code § 6621.

Current interest rates can be viewed at:

<https://revenue.alabama.gov/assessments/quarterly-interest-rates/>

Annual Renewal of Alabama Tax Licenses

Renewal of Alabama Tax Licenses

Taxpayers are now required to renew the State of Alabama Tax License by December 31st of each year, through MAT, for the tax accounts listed below:

- Sales Tax
- Rental Tax
- Sellers Use Tax
- Simplified Sellers Use Tax
- Lodgings Tax
- Utility Gross Receipts Tax

Renewal of Alabama Tax Licenses

You will be required to review and/or update the following information:

1. Current Legal Name – must be reviewed.
2. Owner/Officer/Member Information – must be reviewed and/or updated.
3. Phone number(s) – must be reviewed and/or updated.
4. Social security numbers/FEIN's – must be reviewed.
5. Main address must be reviewed.
6. Location address(es) including the d/b/a for each location – must be reviewed and/or updated.

Taxpayer Service Centers

The Alabama Department of Revenue has nine Taxpayer Service Centers located throughout the State to assist you. Contact information for the Service Centers can be found at:

<https://revenue.alabama.gov/taxpayer-service-centers/>

Thank you for being ADOR's B.E.S.T.!

B.E.S.T. Webinar presentations can be found at

<https://revenue.alabama.gov/taxpayer-advocacy/b-e-s-t-seminars/b-e-s-t-webinar-schedule/>

Also available are B.E.S.T. Learning Modules at

<https://revenue.alabama.gov/taxpayer-advocacy/b-e-s-t-seminars/watch-modules-online/>

Questions?

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